

PUBLIC DISCLOSURE

FEBRUARY 5, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

TELECOM CO-OPERATIVE BANK

155 FEDERAL STREET
BOSTON, MA 02110

DIVISION OF BANKS
100 CAMBRIDGE STREET
BOSTON, MA 02202

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of TeleCom Co-operative Bank prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "SATISFACTORY"

The overall rating of satisfactory is based on TeleCom Co-operative Bank's reasonable loan to deposit ratio, as well as its willingness to lend to low and moderate-income individuals within its assessment area. Additionally, the bank has made the majority of HMDA reportable loans inside its assessment area.

The loan to deposit ratio analysis indicated an average ratio of 68.7 percent over the prior eight quarters. The ratio as of September 30, 1998 was compared to other institutions of similar size and type and the bank is considered to meet the standards of satisfactory performance.

According to 1997 and 1998 HMDA LAR data, 60.2 percent of the bank's residential and home improvement loans were originated within its assessment area. This distribution meets the standards for satisfactory performance.

An analysis of HMDA originations by income of borrower indicated that 22.7 percent of the total HMDA originations for the time period covered were to low and moderate-income individuals. This is considered to meet the standards for satisfactory performance.

The bank's assessment area is made up of Norfolk County, Middlesex County, and Suffolk County. Based on the analysis of the geographic distribution of loans, the bank distribution to geographies of different income meets the standards of satisfactory performance.

Finally, there were no complaints received by the bank pertaining to its CRA performance and the fair lending examination revealed no evidence of discriminatory or illegal credit practices.

PERFORMANCE CONTEXT

Description of Institution

TeleCom Co-operative Bank was established in 1925 with the purpose of serving the savings and credit needs of telephone company workers, families, and friends. TeleCom Co-operative Bank has a unique nature. The bank was originally instituted to provide credit to telephone workers, specifically through the origination of mortgage loans, along with the Telephone Workers Credit Union, which provided consumer loans. In this manner the bank operated more like an “industrial” credit union, serving the credit needs of a specific “membership.” However, since its change from Telephone Workers’ Co-operative Bank to TeleCom Co-operative Bank, management has instituted steps to expand the client base from telephone workers to a public or community-oriented bank, with a concentration on the telecommunication industry.

As of December 31, 1998, the bank had total assets of \$35,547,000, of which 57.7 percent were in the form of loans. The bank is primarily a residential lender with 94.0 percent of the total portfolio in 1-4 family residential properties. However, the bank has introduced a number of new products including home equity lines of credit,

Refer to the following table for additional information on the breakdown of loans.

LOAN TYPE	AMOUNT 000's	PERCENT
1-to-4 Family – First Liens	\$ 18,970	92.4
Consumer	\$ 733	3.6
Junior Liens	\$ 310	1.5
Commercial Real Estate	\$ 187	0.9
Lines of Credit	\$ 10	0.1
Other	\$ 316	1.5
GROSS LOANS	\$ 20,526	100.0

Source: December 31, 1998 Call Report

TeleCom Co-operative Bank operates one full service office, which is located on the 4th floor of 155 Federal Street, Boston. The bank does not operate any Automated Teller Machines (ATM), however; customers have access to machines owned by other networks. Banking hours are Monday through Friday 8:30am to 3:00pm.

TeleCom Co-operative Bank has direct competition within the immediate area from several local institutions including Telephone Workers’ Credit Union, Commonwealth Co-operative Bank, Liberty Bank & Trust, state and nationally chartered financial institutions located throughout its assessment area, as well as a number of regional and national mortgage companies.

The examiners used PCI Services, Inc., CRA Wiz, to generate aggregate HMDA reports when comparing TeleCom Co-operative Bank to other HMDA lenders throughout its assessment area.

The bank was last examined for compliance with the Community Reinvestment Act by the Federal Deposit Insurance Corporation on March 31, 1997. That examination resulted in a Satisfactory rating.

Description of Assessment Area

TeleCom Co-operative Bank has defined its assessment area as Middlesex County, Norfolk County, and Suffolk County. These counties are located in four Metropolitan Statistical Areas (MSAs). The majority of the assessment area is located in the Boston MSA. The northern portion of Middlesex County is located in the Lowell MSA. The Fitchburg/Leominster and the Brockton MSAs each contain one census tract of the assessment area. The assessment area is quite large for an institution of this asset size. This is due to the bank's history of serving the credit needs of telephone workers wherever they may reside rather than a more traditional geographic area.

Assessment Area Demographics

The bank's assessment area encompasses 586 census tracts. Of these census tracts, 49 are considered low-income, 139 moderate-income, 248 middle-income, and 141 upper-income, and 9 were considered as N/A.

The three counties that comprise the assessment area display unique characteristics. Suffolk County, which contains the City of Boston, is the most urbanized area, containing the largest number of low and moderate-income census tracts. It also has the largest number of rental occupied units, with 61.6 percent of all occupied units being rental units. Suffolk County also contains the lowest number of single family 1-4 unit properties within the assessment area.

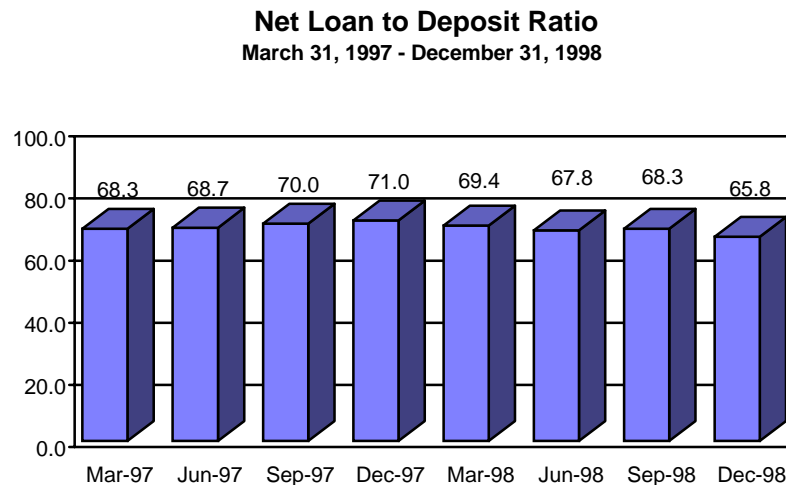
Middlesex County contains the second largest number of low and moderate-income census tracts, as well as the largest number of upper-income census tracts, which comprise 32.0 percent of all tracts within the county. Middlesex County also has the largest number of housing units, of which 56.97 percent are owner-occupied and 76.9 percent are 1-4 family properties.

Norfolk County is characterized by middle-income census tracts which represent 61.3 percent of its tracts. It also has the highest percentage of owner-occupied units at 65.1 percent of all occupied housing units. Norfolk County also contains the largest percentage of 1-4 family properties.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

A comparative analysis of TeleCom Co-operative Bank's quarterly net loan-to-deposit ratios for the period of March 30, 1997 through December 31, 1998, was conducted during this examination. Using the bank's quarterly Call Reports, the average net loan-to-deposit ratio for this period was determined to be 68.7 percent. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits. The following graph is provided for further analysis.



The loan to deposit ratio stands at 65.8 percent as of December 31, 1998, the lowest point during the past two years. The bank's loans and deposits as of March 31, 1997 were compared to that of December 31, 1998. This comparison revealed that loans have decreased by \$1,142,000 or 5.3 percent, while deposits for the same period also decreased by \$565,000 or 1.8 percent.

TeleCom Co-operative Bank's average net loan-to-deposit ratio was compared to the ratios of three other area institutions. The ratios used for TeleCom Co-operative Bank and the other institutions were taken from September 30, 1998 Call Reports. Refer to the following table for additional information.

COMPARATIVE NET LOAN-TO-DEPOSIT ANALYSIS

CREDIT UNION	NLTD RATIO
<i>TeleCom Co-operative Bank</i>	68.3
Commonwealth Co-operative Bank	86.3

Telephone Workers' Credit Union - Boston	64.0
Liberty Bank & Trust	61.5

TeleCom Co-operative Bank's net loan-to-deposit ratios are comparable with that of similar local institutions. These ratios indicate the bank's willingness to return deposits in the form of credit.

Based upon the information above and comparing TeleCom Co-operative Bank's asset size to its competitors in the assessment area, the net loan-to-deposit ratio is considered to meet the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

A review of TeleCom Co-operative Bank's Loan Application Registers (LARs) for 1997 and 1998 was conducted during the examination. This information indicated that the bank originated 88 HMDA reportable loans during this period. All of the loans were for purchased and refinanced properties, as well as home improvement loans. A total of 53, or 60.2 percent of all HMDA reportable loans were originated within the bank's assessment area.

An additional review of the total dollar amount of HMDA reportable originations for the same period was also reviewed. The bank granted a total of \$9,156,000 in HMDA reportable loans during this period. Of these loans, \$5,300,000, or 57.9 percent were originated within the bank's assessment area.

Refer to the following tables for additional information.

HMDA LOANS BY NUMBER OF ORIGINATIONS

	1997		1998		TOTALS	
LOCATION	#	%	#	%	#	%
Norfolk County	10	25.0	14	29.2	24	27.2
Suffolk County	9	22.5	10	20.8	19	21.6
Middlesex County	5	12.5	5	10.4	10	11.4
INSIDE ASSESSMENT AREA	24	60.0	29	60.4	53	60.2
OUTSIDE ASSESSMENT AREA	16	40.0	19	39.6	35	39.8
TOTALS	40	100.0	48	100.0	88	100.0

Source – 1997 and 1998 HMDA/LARs

HMDA LOANS BY DOLLAR AMOUNT OF ORIGINATIONS

	1997		1998		TOTALS	
LOCATION	\$ 000s	%	\$ 000s	%	\$ 000s	%
Norfolk County	769	22.9	1,751	30.2	2,520	27.5
Suffolk County	449	13.3	1,225	21.2	1,674	18.3
Middlesex County	537	16.0	569	9.8	1,106	12.1
INSIDE ASSESSMENT AREA	1,755	52.2	3,545	61.2	5,300	57.9
OUTSIDE ASSESSMENT AREA	1,605	47.8	2,251	38.8	3,856	42.1
TOTALS	3,360	100.0	5,796	100.0	9,156	100.0

Source - 1997 and 1998 HMDA/LARs

As illustrated in the tables above, a majority of the number of mortgage related loans and the dollar amount of loans extended were within the bank's assessment area. The largest concentration of originated loans was within Norfolk County.

Based on the analysis of credit extended inside and outside of the assessment area, the bank is considered to meet the standards of satisfactory performance.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of HMDA reportable originations extended within the various income levels throughout the assessment area was conducted during the examination. Originations were categorized by the ratio of the applicant's reported income to the median family income of the Boston Metropolitan Statistical Area (MSA), the Lowell MSA, the Fitchburg/Leominster MSA, and the Brockton MSA. Refer to the following table for a breakdown of the estimated 1997 and 1998 HUD information.

MSA	1997	1998
Boston	\$59,600	\$60,000
Brockton	\$53,900	\$53,900
Fitchburg/Leominster	\$48,200	\$48,200
Lowell	\$59,100	\$59,200

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA; moderate income is defined as 50 to 79 percent of the median family income; middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

Refer to the following table for information on the bank's distribution of credit among different income levels.

HMDA ORIGINATIONS BY INCOME OF BORROWER

% OF MEDIAN MSA INCOME	1997		1998		TOTAL	
	#	%	#	%	#	%
<50%	0	0.0	1	3.5	1	1.9
50% - 79%	6	25.0	5	17.2	11	20.8
80% - 119%	7	29.2	15	51.7	22	41.5
120% >	11	45.8	8	27.6	19	35.8
N/A	0	0.0	0	0.0	0	0.0
TOTAL	24	100.0	29	100.0	53	100.0

Source: 1997 and 1998 HMDA/LARs

As the above table indicates, 1.9 percent of HMDA reportable loans within the bank's assessment area were made to borrowers of low-income, while loans to moderate-income borrowers represented 20.8 percent of all loans. Middle-income borrowers accounted for 41.5 percent, and upper-income borrowers represented 35.8 percent.

The following table shows the number and dollar volume of HMDA-reportable loans originated by the bank to low, moderate, middle and upper-income borrowers in comparison to the activity of all other HMDA-reporting lenders in the assessment area during 1997.

**Lending Within the Assessment Area to Borrowers of
Different Income Levels
TeleCom Co-operative Bank Compared to
All Other HMDA-Reporting Lenders**

Borrower Income Level	Number of Loans				Dollars in Loans (000's)			
	TeleCom Co- operative Bank		All Other Reporters		TeleCom Co- operative Bank		All Other Reporters	
Low	0	0.0%	4,041	4.5%	\$0	0.0%	\$258,118	1.8%
Moderate	6	25.0%	13,491	15.0%	\$278	15.8%	\$1,229,701	8.7%
Middle	7	29.2%	20,803	23.2%	\$576	32.8%	\$2,493,142	17.7%
Upper	11	45.8%	36,123	40.2%	\$901	51.4%	\$7,315,010	51.9%
NA	0	0.0%	15,324	17.1%	\$0	0.0%	\$2,808,185	19.9%
Total	24	100.0%	89,782	100.0%	\$1,755	100.0%	\$14,104,156	100.0%

Source: HMDA Data for the period 1/1/97 to 12/31/97.

As shown in the above table, the percentage of the bank's lending to moderate-income borrowers at 25 percent is substantially higher when compared to all other lenders within the assessment area. However, during 1997, the bank did not make any loans to low-income borrowers. This can be attributed to the salary range of telephone workers who comprise the majority of borrowers.

A review of the distribution of credit to borrowers of various incomes reflects an adequate penetration among individuals of different income levels.

Therefore, the distribution of credit among different income levels meets the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of HMDA reportable loan originations extended within the various census tracts contained in the bank's assessment area was conducted during the examination. The bank's assessment area is comprised of 586 census tracts, 49 of which are designated as low-income, 139 designated as moderate-income, 248 designated as middle-income, 141 designated as upper-income, and 9 designated as N/A.

The bank originated 53 HMDA reportable loans within its assessment area from January 1, 1997 through December 31, 1998. Of these 53 loan originations, 1.9 percent were made in low-income census tracts and 7.5 percent were made in moderate-income census tracts, while the majority of 58.5 percent were made in middle-income census tracts. Refer to the following table for additional information.

HMDA ORIGINATIONS BY CENSUS TRACT

CENSUS TRACT	1997		1998		TOTAL	
	#	%	#	%	#	%
LOW	1	4.2	0	0.0	1	1.9
MODERATE	3	12.5	1	3.5	4	7.5
MIDDLE	11	45.8	20	69.0	31	58.5
UPPER	9	37.5	8	27.5	17	32.1
TOTAL	24	100.0	29	100.0	53	100.0

Source: HMDA/LAR Data – 1997/1998

Lending among moderate-income census tracts is slightly lower than their representative demographic profile within the bank's assessment area. Aggregate data for all other lenders within the assessment area reveals that 1.5 percent of all originations within the assessment area were in low-income census tracts; 12.5 percent in moderate-income tracts; 49.0 percent in middle-income tracts; and 37.0 percent in upper-income census tracts. TeleCom Co-operative Bank's performance, for calendar year 1997, is slightly higher than the aggregate in low-income census tracts and is proportionate in moderate-income census tracts.

Based on the analysis of the geographic distribution of loans, the bank meets the standards of satisfactory performance in generating originations from all segments of its assessment area.

5. REVIEW OF COMPLAINTS/FAIR LENDING

TeleCom Co-operative Bank has not received any complaints that were related to its CRA performance since the previous examination. TeleCom Co-operative Bank's record of implementing and developing fair lending policies is considered to meet the standards for satisfactory performance.

FAIR LENDING POLICIES AND PRACTICES

The following synopsis provides information concerning the institution's Fair Lending compliance.

STAFF TRAINING

The bank does not have a formal staff training program designed to educate employees about fair lending laws and regulations. The bank does however, send officers to attend seminars on regulatory changes. For example, employees of the bank attended a Home Mortgage Disclosure Act Reporting seminar in February 1998.

STAFF COMPOSITION AND COMPENSATION

The bank has a staff of eleven full and part-time employees. The bank does not compensate on a commission basis, thereby encouraging loans of all dollar amounts.

OUTREACH

One of the bank's directors serves on the Board of the Dorchester House, which assists low-income families through health, education and social services.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

Telecom Co-operative Bank provides a free pre-approval process for individuals seeking mortgage products.

The bank's president conducts an annual review of credit products in order to help determine whether the bank is offering competitive products and whether those products are responsive to the assessment area's credit needs.

The bank has a first-time homebuyers program that is similar to the MHFA first-time home buyer program in terms of income and purchase price. The first-time homebuyer program has a maximum loan to value of 95.0 percent. From January 1, 1997 through December 31, 1998, the bank granted 3 first time homebuyer loans totaling \$506,000.

MARKETING

The bank's marketing is directed towards its existing customers through advertisements in the Massachusetts Telecommunication Council Directory and quarterly bulletins.

CREDIT EDUCATION

The bank has not sponsored or participated in any credit education seminars over the past two years.

COUNSELING

The bank refers all loan customers who are experiencing credit difficulties to the appropriate consumer credit counseling services available in the area. In addition, the bank provides credit counseling when requested by the customer or when a customer is experiencing financial difficulties.

SECOND REVIEW PRACTICES

Telecom Co-operative Bank has a second review policy in which the bank's president reviews all denied loan applications. This is done prior to the applicant receiving notification of adverse action.

INTERNAL CONTROL PROCEDURES

The bank's Home Mortgage Disclosure Act and Loan Application Register data are reviewed periodically by the Treasurer in order to ensure compliance with fair lending regulations.

The bank has a CRA committee that meets monthly in order to discuss CRA related activities. The bank also makes use of mapping software in order to monitor the location of its loan originations.

MINORITY APPLICATION FLOW

A review of HMDA reportable loan applications was conducted in order to determine the number of applications the bank received from minorities. From January 1, 1997, through December 31, 1998, the bank received 58 HMDA reportable loan applications from within its assessment area. During this period, 3 applications, or 5.2 percent, were received from minorities. Refer to the following table for further details.

APPLICATION FLOW

RACE	1997		1998		TOTAL	
	#	%	#	%	#	%
American Indian	0	0.0	0	0.0	0	0.0
Asian	0	0.0	0	0.0	0	0.0
Black	1	4.2	2	5.9	3	5.2
Hispanic	0	0.0	0	0.0	0	0.0
Other	0	0.0	0	0.0	0	0.0
TOTAL MINORITY	1	4.2	2	5.9	3	5.2
White	23	95.8	32	94.1	55	94.8
TOTAL	24	100.0	34	100.0	58	100.0

Source: 1997 and 1998 HMDA LARs.

A review of the minority application flow of the bank in 1997 indicated that the bank received one application or 4.2 percent of its total applications from a minority applicant. This data is compared to that of the aggregate banks within the assessment area where 11.2 percent of all applications were received from minorities. To a certain extent, Telecomm Co-operative Bank's performance in this regard is a function of its reliance on telephone workers as its client /borrower base. However, the bank's record of generating minority applications is somewhat low.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

TELECOM CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **February 5, 1999**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 19 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.